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SUBJECT: PORTUGAL: DEFICIT REDUCTION AHEAD OF SCHEDULE,
MORE MONEY NEEDED FOR EU PRESIDENCY

Summary

1. Portugal's efforts to reduce its budget deficit were ahead of schedule, Ministry of Finance Chief of Staff Goncalo Castilho dos Santos told post. It was even possible that the government would reach its target to reduce the deficit below 3% in 2007, a year ahead of schedule, if GDP grew by 2.0%. Portugal planned to present its 2008 budget proposal which focused on "consolidating the consolidation" by the end of July instead of in October to allow the government to focus its attention on Portugal's EU presidency. He also noted that the government would allocate an additional 10 million euros to the Presidency budget to pay for the EU-Africa Summit and other expenses not originally incorporated into the 51 million euros originally approved.

Deficit Reduction Ahead of Schedule

2. Ministry of Finance Chief of Staff Goncalo Castilho dos Santos told post that Portugal's efforts to reduce the country's budget deficit were ahead of schedule. Originally scheduled to reduce its budget deficit to 3.7% in 2007, the government had already revised this year's target to 3.3% due to better than expected results in 2006. It was even possible that Portugal could reach its goal of reducing the budget below 3% in 2007, a year ahead of schedule, if GDP grew by 2.0% or more as predicted. The government was also on target to reduce its bloated public administration by 75,000 positions by 2008, with Castilho dos Santos noting that a total of 40,000 civil servant positions were expected to be eliminated by the end of 2007 through attrition, reassignment and consolidation.

Consolidating the Consolidation

3. Having focused on increasing revenue in 2006 and reducing expenses in 2007, the government planned to "consolidate the consolidation" in 2008. The Ministry had worked hard since 2005 to bring the many off-line expenses and separate budgets into a unified budget, consolidating disparate pension and social security systems, standardizing civil service benefits, and strengthening fiscal supervision. The government planned to present its 2008 budget proposal by the end of July instead of in October to allow for early debate, thereby enabling the Ministries to focus their full attention on Portugal's EU presidency following the August break. The 2008 budget proposal includes plans to charge tolls on more highways, with part of the revenue going to the Highway Administration and part going into central government coffers. The government may begin reducing taxes in late 2008 if GDP growth permits.

Additional 10 Million Euros for EU Presidency

4. The government will increase the EU presidency budget to

61 million euros from the original 51 million euors(45 million euros for the MFA and 6 million for other ministries) initially allocated. The additional 10 million euros is needed to cover the cost of the EU-Africa Summit and other expenses not incorporated into the 2007 budget approved in December 2006.

PM to Focus on Internal Coordination

15. Having expended considerable effort to consolidate the budget and public administration, Prime Minister Jose Socrates is focused on ensuring internal budget coordination continues throughout and after Portugal's EU presidency. Castilho dos Santos noted that following Portugal's last EU presidency in 2000, the lack of internal coordination among the ministries precipitated the economy's downturn and negative growth from which the country is just now beginning to recover.

No Special Treatment for Portugal

16. Although Finance Minister Fernando Teixeira dos Santos agreed last week with UK and German officials to accommodate France's request for greater flexibility in reducing its budget deficit, Portugal has no desire to change its Growth and Stability Agreement. With the government's goal to reduce the deficit below 3% (from an all time high of 6% in 2005) within its grasp, Portugal sees no need to change its successful path to economic recovery.

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